STATEMENT OF
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BEFORE THE

SUBCOMMITTEE ON WATER AND POWER
COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES

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EXAMINING THE PROPOSED FISCAL YEAR 2013 SPENDING, PRIORITIES AND THE MISSIONS OF THE BONNEVILLE POWER ADMINISTRATION, THE WESTERN AREA POWER ADMINISTRATION, THE SOUTHWESTERN POWER ADMINISTRATION AND THE SOUTHEASTERN POWER ADMINISTRATION

Thank you, Chairman McClintock and members of the Subcommittee. My name is Timothy Meeks. I am the Administrator of the Western Area Power Administration (Western), and I'm proud to be here today to represent Western and to tell you about the progress we've made in delivering clean, reliable, renewable power to the western United States and our continuing efforts to make the most of the resources we have, to conduct our business efficiently, and to keep our rates as low as possible, consistent with sound business principles.

Who we are and what we do

Western Area Power Administration markets and delivers Federal hydropower within a 15-state region of the central and western United States. For more than three decades, our mission of delivering clean, reliable, renewable energy has been crucial in meeting the energy demands of the West. Federal hydropower has been critical in providing reliable electricity to light homes and drive industry in small towns and large communities, and on Tribal lands and military bases.

As one of four Power Marketing Administrations within the U.S. Department of Energy (DOE), we market hydropower generated at 56 multi-use Federal water projects operated by the Bureau of Reclamation, U.S. Army Corps of Engineers, and the International Boundary and Water Commission. Together, these plants are capable of delivering approximately 10,000 megawatts of power. Western does not market this power as a single power system. Rather, Western takes the power generated by each Federally-authorized, multi-purpose water project, and markets it within the region served by that water project. As a result, Western has 14 power systems marketed under 10 different marketing plans and rates.

To deliver this power to our customers, Western owns, operates, and maintains more than 17,000 miles of high-voltage transmission line and about 300 substations throughout our 1.3 million square-mile service territory. Our permanent, full-time staff of more than 1,400 employees

works around the clock, maintaining the interconnected transmission system and ensuring that energy supply instantaneously matches energy demand to ensure power keeps moving through the system and electricity ultimately reaches homes and businesses throughout our marketing area.

As an essential part of our mission to deliver Federal hydropower, Western has a long history of constructing transmission lines. Western has played important roles in the construction of such major transmission facilities as the California-Oregon Transmission Project, the Mead-Phoenix Transmission Line, and the Path 15 Transmission Upgrade, among many others. Recognizing this capability, Congress amended the Hoover Power Plant Act of 1984 in 2009 to grant Western borrowing authority to construct new or upgraded transmission facilities that would deliver, or facilitate the delivery of, renewable energy.

How we conduct business—"the beneficiary pays" principle and cost-based rates

We operate in a business-like manner, and we believe strongly in the principle that "the beneficiary pays." By this, we mean those entities that benefit from the use of these Federal resources must pay for the use of those resources. We design our rates so each power system or transmission project pays only for its own costs. By law, we will ensure that each transmission facility built with our borrowing authority under our Transmission Infrastructure Program (TIP) pays for itself without relying on revenues from our core-mission projects.

We sell our Federal hydropower according to Federal Reclamation law, which requires our power be sold to consumers at the lowest possible rates consistent with sound business principles. This means we sell our firm power at rates designed to recover all the costs of providing this power. This includes not only our own costs, but also the costs of Federal generating agencies. All the costs associated with the generation and transmission of electricity are paid by Western's customers, with essentially none of those costs borne by Federal taxpayers. Operating expenses and capital investments are both repaid, the latter with interest. In cases where non-power project beneficiaries, such as irrigators, are unable to pay, Congress has directed that power users pay the non-power costs of multi-purpose Federal water projects. In those cases, our power customers, in effect, provide a subsidy to other project beneficiaries.

Importance of cost control and cost-control efforts

Based on our history and mission, we have a strong culture of cost awareness and control throughout Western. It makes good business sense, and our customers expect it. We have taken a number of important steps in the past year to ensure we make the most efficient use of our resources as possible. These steps include fine-tuning and updating our strategic plan, developing strategic targets associated with that plan, initiating a process to strengthen asset management for our hydropower program, consolidating data centers and commencing a study of all our power system operations activities. We are also in the process of implementing our Operations Consolidation Project, which consolidates the operations and transmission service functions within our Desert Southwest Region, Rocky Mountain Region, and Colorado River Storage Project Management Center. We expect to improve organizational effectiveness by reducing overall resources required to develop and maintain multiple operations systems. The

project also optimizes workload to ensure Federal Energy Regulatory Commission (FERC), Midwest Reliability Organization, North American Electric Reliability Corporation (NERC) and Western Electricity Coordinating Council (WECC) reliability standards and Open Access Transmission Tariff requirements are addressed consistently and efficiently. Western's customers will experience future cost savings based on the long-term benefits of integrated life-cycle facility investments, elimination of duplicative activities and costs, reduction in anticipated required resources and sharing of common Information Technology tools. This will result in a single, common implementation of numerous systems that in the past required independent upgrades. The focus of all these efforts is to keep our rates as low as possible by making Western as efficient as possible, maximizing the resources available to us and ensuring that we remain nimble to keep pace with industry trends and issues.

Current remarketing initiatives ensure power delivery and repayment

In 2011, Western began a public process to remarket power from the Loveland Area Projects beginning in 2025. We also concluded marketing initiatives for the Pick-Sloan Missouri Basin Program—Eastern Division and the Boulder Canyon Project. Western anticipates publishing a final Loveland Area Projects 2025 Power Marketing Plan this spring after public input has been received and considered.

Western is developing over 300 new firm electric service contracts for Pick-Sloan customers to conform to the new marketing plan beginning in 2021. Highlights of the new plan include a 30-year contract term, to provide customers greater resource certainty while allowing Western to maintain needed flexibility, and the creation of three resource pools, created by the withdrawal of power and energy from existing customers of up to one percent every 10 years to ensure the widespread use of the Federal hydropower resource.

On December 20, 2011, the President signed the Hoover Power Allocation Act of 2011 into law. The act establishes the criteria Western will use to market Boulder Canyon Project power. The act provides for 50-year contract terms and a five-percent resource pool for new customers. Western will proceed to carry out its resource allocation direction and make a call for applications by the summer of 2012.

The Hoover Power Plant Act of 1984 provides Western the authority to market the U.S. entitlement in the Navajo Generation Station (NGS) that is surplus to the Central Arizona Project (CAP) pumping demands. Prior to September 30, 2011, all NGS surplus was marketed under a long-term arrangement to Salt River Project (SRP). With the expiration of the previous contract, Western will now market NGS surplus at non-cost-based rates to optimize the revenues to the Development Fund, which the Bureau of Reclamation uses to carry out various aspects of its mission. Western has held a public meeting to share information regarding the types of NGS products that are anticipated to be available, anticipated contractual terms, and process overview with any interested buyers of NGS surplus. Once products have been defined, coordination with prospective buyers has occurred and contractual provisions are agreed to, Western will solicit bids and begin to sell NGS surplus on a term basis as soon as the summer of 2012.

2011 Strategic Plan

Last year, our senior management team updated Western's Strategic Plan by initially taking a fresh look at the goals in our last plan. Through the planning process, we reaffirmed much of what we were doing and where we are going. Our 2011 Strategic Plan fine tunes and updates our focus to ensure we are aligned with DOE's goals and working toward a sustainable, clean, reliable and secure energy future for our customers, the American people, and future generations. Most importantly, we again reaffirmed our core mission remains marketing and delivering clean, renewable, reliable, cost-based Federal hydropower. I'm proud of the work we've done to ensure the American people receive the benefits of Federal hydropower, and I look forward to continuing our tradition of meeting customer needs for affordable and reliable power.

To continue meeting those needs in the future, we have focused our strategies and priorities around three goals.

Goal 1 – Provide reliable, cost-based power and transmission services to our customers, thereby reducing their vulnerability to supply disruption and increasing flexibility to meet consumers' needs for electricity.

Goal 2 – Contribute to creating a more reliable, flexible and robust U.S. energy infrastructure, ensuring our efforts are funded and paid for by the beneficiaries.

Goal 3 – Ensure Western has the organizational capabilities, people and resources to satisfy growing demands.

Some of our priorities build on our traditions and strengths, including carrying out our mission in a safe, secure, and reliable manner and maintaining financial stability in the face of an uncertain economic environment. We also look to operate, maintain, improve, upgrade, and expand the transmission system for the reliable delivery of energy to our customers, while maintaining strong compliance programs and hiring, developing, and retaining high-performing employees.

I believe these strategic priorities will allow us to continue to meet the needs of the American people by protecting the value of the Federal hydropower resources, ensuring the reliability and availability of Western's transmission system, and providing clean, reliable energy.

Strategic targets

Unless accompanied by measurable actions and targets, strategic plans tend to languish. To give life to our strategic plan, we've also developed a series of strategic targets. While developing targets and actions has always been part of our strategic planning process, this is the first time that we have presented all of our strategic targets into one document and presented them as Western's annual organizational performance contract to the Deputy Secretary of Energy.

I believe we have laid out an aggressive plan that emphasizes maintaining our focus on our core mission, as well as stretch goals that will push the boundaries of what is assumed to be possible today. I'd like to highlight just a few of our strategic targets that relate to some of our newer,

forward-looking strategies, including asset management, data center consolidation, and our recently initiated operations study.

Asset management

We have initiated a Western-wide effort to define, formalize, and strengthen asset management for our hydropower program. The goal is to ensure we are making risk-informed capital investment decisions that produce the best value for our customers and maintain system reliability. We plan to include additional risk evaluation, analysis, and prioritization into our existing maintenance replacement, rehabilitation, and information technology capital investment decision processes. This is all in addition to continuing our ongoing consultation and coordination with our customers and the generating agencies on capital investments.

Data Center Consolidation

Our Data Center Optimization initiative works to standardize hardware, software and IT processes Western-wide; reduce complexity and operational expenses; and improve services. The end goal is to consolidate administrative systems into two Data Centers, which will, in addition to reducing costs, also reduce our energy consumption. Last year, Western's IT Department retired 53 servers and virtualized another 58. In the corporate services office, the data center footprint was reduced by 70 percent. Another region will reduce its footprint by 69 percent in summer 2012. So far, this initiative has resulted in cost savings and avoidance $668,000 in procurement, operating and maintenance costs.

Studying and improving operation processes

We have begun an analysis of our power system operations organization, work functions, and associated costs to benchmark our performance and look for opportunities to achieve greater efficiency. The study will look at transmission services and planning activities, transmission operations and balancing authority activities, functions for meeting industry compliance and reliability standards and participation in industry-wide power system initiatives. The study's final report, expected by the end of FY 2012, will provide us with valuable input and recommendations for actions we can take to proactively evaluate and respond to the changes we face in the industry.

As you can see, a common thread works through each of these targets. Each is designed to make Western even more efficient, control costs and keep our rates as low as possible.

However, while we look for every opportunity to work more efficiently, standing still in today's energy industry is not an option. We must also look to the future, anticipate changes on the horizon, and prepare for them. Recognizing the increasing impact the development of intermittent, renewable energy sources is having and will continue to have in our balancing authorities, we are exploring how an Energy Imbalance Market in the West might work to better accommodate those intermittent generation sources and the role Western might play in that market. We also have a target to investigate new Western-wide transmission products and services to enhance the sales of transmission services and to better serve our customers.

Transmission Infrastructure Program

Another of our strategic targets is to facilitate renewable energy development through our Transmission Infrastructure Program. Through Title III of the Hoover Power Act of 1984, as amended in the American Recovery and Reinvestment Act (P.L. 111-5), Western has the authority to borrow from the Treasury to construct and/or upgrade transmission lines to help deliver renewable resources to market. Western continues to implement its borrowing authority through TIP, committing funds to two additional projects, TransWest Express (TWE) and Electrical District 5 to Palo Verde Hub (ED5-PVH) in 2011. The Montana Alberta Tie Ltd. (MATL) was the first project to be funded under our borrowing authority in 2009.

TIP has a well-established, rigorous, documented process to identify, select, and manage projects for potential borrowing authority financing, and is currently engaged in discussions with a number of entities regarding additional potential projects. With all the projects we have approved, we have ensured through contractual arrangements that future revenues will be sufficient to fully repay the borrowing for these projects. We will continue to adhere to this principle for future projects.

TransWest Express Project

The TWE Project is a 725-mile, 3,000 megawatt, 600-kilovolt, direct-current transmission system between south-central Wyoming and southern Nevada. The TWE Project would deliver Wyoming's world-class wind energy resources to population centers that need renewable energy in states such as California, Arizona, and Nevada. In addition, the line would provide important electricity capacity, reliability, and stability for the Western Interconnection. Western executed a Development Agreement with TWE in September 2011 that provides for Western and TWE to share the development costs of the TWE Project equally, with a maximum of $25 million to be borne by Western. The development phase will determine the feasibility of constructing and operating the project, including the environmental analysis and is expected to be complete in late 2013. At that time, Western will decide whether to continue our participation into the construction phase. Western's borrowing authority funds are guaranteed by a letter of credit for the development phase, and should we not participate in construction, Western will be repaid for all its development costs.

Electrical District 5 – Palo Verde Hub Project

The ED5-PVH Project is a 109-mile long transmission project that will provide a path to and from the very active energy marketplace at the Palo Verde Hub to the Electrical District No. 5 Substation, south of Phoenix, to facilitate the delivery of emerging renewable resources in the area to both customers and markets.

Upon repayment, the project will be 100-percent owned by Western's Parker-Davis Project (P-DP); however, during the repayment period a separate and distinct Facilities Use Charge based upon the project's usage will be incorporated to fully recover the Project costs. Only P-DP customers using the line will pay the Facilities Use Charge, ensuring Western's commitment to the concept of "the beneficiary pays" requirement in the American Recovery and Reinvestment

Act of 2009. Western already has signed long-term contracts with fifteen transmission customers taking service over this path that will ensure the project revenues are sufficient to repay the costs.

The ED5-PVH Project is a success story that represents the first partnership with one of Western's existing Federal power projects to develop transmission infrastructure and facilities to further renewable resource development. The current cost estimate for the project is $91 million, and the project is expected to be in service in January 2015.

Montana Alberta Tie Limited Project

The MATL project is the first Western-financed project using our borrowing authority. MATL is a 230-kilovolt, 214-mile transmission line that will run from a substation near Great Falls, Montana, to one near Lethbridge, Alberta, and allow energy flow in both directions. Northern Montana and southern Alberta are home to some of the best wind energy sources in North America. The MATL line will enable the development of new wind-energy projects by linking this renewable and emission-free source of power to consumers across North America.

Approximately $154 million of the project cost to date has been funded by Western via borrowing authority enacted in the American Recovery and Reinvestment Act of 2009. If needed, Western has agreed to finance up to $161 million of the total project cost, which is now estimated to be $306 million. The project has encountered a number of challenges that impacted the project schedule and total project cost, as land acquisition was halted by a court decision in Montana. However, Western's obligation has not increased, and no additional taxpayer funds are at risk.

We are heartened by a number of positive developments with MATL. In October 2011, Enbridge, an energy firm with extensive experience in developing pipelines, linear energy features that have much in common with electrical transmission lines, acquired Tonbridge, the original project developer, and the MATL project. In January, a Montana district court ruled Montana House Bill 198, which clarified public utilities' eminent domain authority, is constitutional, paving the way to resolve outstanding lands issues. Enbridge has resumed construction on the project, and, as the senior lender, Western is committed to ensuring the project is completed and energized, which we expect by the end of 2012. The project has secured a transmission service agreement with NaturEner for the output from their Rim Rock wind farm, providing a revenue stream on the transmission line for repayment to the U.S. Treasury. In January, NaturEner began construction of its Rim Rock wind farm.

Response to Inspector General Report

In November 2011, the Department's Inspector General (IG) issued a management alert based on its audit of Western's administration of its borrowing authority and included a number of specific recommendations.

Working closely together, Western and the Department have implemented many of the IG's recommendations and are working to implement the remaining recommendations. For instance,

in February, as part of the on-going effort to develop long-term funding for the Program, working with the Department and OMB, TIP received an initial apportionment of $1.8 million to use receipts provided by project developers to fund expenses in FY 2012. In addition, we are coordinating with the Department to finalize the report from the team convened to complete a root cause analysis of the problems encountered in the MATL project, and will not fund any new projects with our borrowing authority until the MATL root cause analysis is complete and corrective action plans are implemented. The Department has established a monitoring team to track progress on MATL and the other projects that have already been financed from our borrowing authority. Other process improvements are also in various stages of implementation.

Western and the Department are committed to the responsible and efficient use of our borrowing authority to help build the infrastructure our Nation needs to remain competitive in a global economy. This borrowing authority is key to our efforts to upgrade transmission infrastructure in the Western United States.

Western's Budget request

We can't do any of this without resources, including support from Congress and the support of our customers. Western is requesting Congress appropriate $96.1 million for its Construction, Rehabilitation, Operation, and Maintenance Account and $0.2 million for the Falcon and Amistad Operating and Maintenance Fund in FY 2013. Offsetting these requests is $23.0 million in anticipated net receipts to the Colorado River Basins Power Marketing Fund, for a total Western net request of $73.3 million, as seen in Attachment 1.

A considerable portion of Western's mission requirement is dependent on a combination of offsetting collections and alternative financing (including customer cash advances), which are used to fund a variety of Western activities including annual expenses, purchase power and wheeling and construction. Through the Administration's support and customer participation, we continue to pursue and use alternative financing to meet our power delivery obligations.

Over the past few years, Western has decreased costs by standardizing business practices, consolidating operations, and following DOE's lead on cutting programs, like procurement contracts, and other support services. In program direction, Western cut $1 million in expenses from FY 2012. Western saved $1.6 million consolidating IT hardware and standardizing software in FY 2012, and streamlining and improving existing processes reduced operating costs by more than $15 million. Consolidating operations in two regional offices has resulted in savings of another $745,000.

Much of Western's 17,000 miles of integrated high-voltage transmission infrastructure was constructed in the 1950s and '60s, with an anticipated useful lifespan of 50 years. More than half of Western's infrastructure has reached or exceeded its anticipated useful life. Significant reinvestment in the system is required to maintain reliable power delivery. Western estimates the FY 2013 priority construction program need is $83 million. Of this amount, we will be seeking cash advances of $62 million, or approximately 75 percent of the FY 2013 requirement to fund Western's Construction and Rehabilitation program. It's important to note that we can't

use our borrowing authority to replace or upgrade our existing transmission facilities unless it facilitates delivery of power from new, renewable generation sources.

Conclusion

I'm pleased with the steps Western is taking to ensure we are using the resources we have as wisely and effectively as possible; I'm proud of the work Western's employees do on a daily basis to provide clean, renewable power to the West at the lowest possible cost; and I'm excited about the progress we've made in enhancing our transmission system to meet our customers' needs and to begin to realize the promise of renewable energy.

Working together with our customers, we are repaying our expenses with interest, ensuring that the beneficiary pays and keeping costs down through sound business and project management practices to be good stewards of the public's resources.

Thank you, Mr. Chairman. I would be pleased to answer any questions that you or the Subcommittee members may have.

Attachment 1

Western Area Power Administration

Overview

Appropriation Summary by Program

(Dollars in Thousands)

	FY 2011 Current	FY 2012 Enacted	FY 2013 Request
Construction, Rehabilitation, Operation and Maintenance (CROM)			
*	50,845	72,863	71,855
Construction and Rehabilitation	109,887	110,449	83,475
Purchase Power and Wheeling	543,622	471,535	422,225
Program Direction	192,205	205,247	204,227
Utah Mitigation and Conservation	7,569	3,375	3,375
Subtotal, CROM-Gross Program	904,128	863,469	785,157
Alternative Financing	-293,906	-266,207	-245,280
Offsetting Collections from Colorado River Dam Fund	-3,879	-4,821	-5,099
Offsetting Collections, annual Operation and Maintenance and Program Direction	-147,530	-189,932	-195,790
Offsetting Collections, Purchase Power and Wheeling	-349,807	-306,541	-242,858
Total, CROM	109,006	95,968	96,130
Falcon and Amistad Operating and Maintenance Fund	2,568	4,169	5,555
Offsetting Collections, annual Operation and Maintenance	-2,348	-3,949	-5,335
Total, Falcon and Amistad	220	220	220
Colorado River Basins Power Marketing Fund (CRBPMF)	227,303	220,397	196,993
Offsetting Collections	-250,303	-243,397	-219,993
Total, CRBPMF	-23,000	-23,000	-23,000
Total, Western Area Power Administration	86,226	73,188	73,350